Sunderland City Council

Item No. 4

Cabinet 8th October 2014

Budget Planning Framework 2015/2016 and Medium Term Financial Strategy 2015/2016 – 2017/2018

Report of the Chief Executive and Head of Financial Resources

1 Purpose of Report

This report identifies the key factors influencing the development of the Councils financial plans into the medium term and sets out the Budget Planning Framework for the Council for 2015/2016. The report sets out the headlines and context for Medium Term Financial Strategy 2015/2016 to 2017/2018 which will be formally considered in due course.

2 Description of Decision

Cabinet is recommended:

- to agree the proposed Budget Planning Framework summarised at Section 11 of the report which will guide the preparation of the Revenue Budget for 2015/2016;

- to note that the full Medium Term Financial Strategy 2015/2016 to 2017/2018 will be presented to Cabinet in February

3 National Economic Context

3.1 Impact of the Deficit Reduction Plan

The Government has indicated its intention to continue to address the deficit by strictly following its deficit reduction plan. The latest position shows the overall reduction in national funding is expected to remain at 13.16% in 2015/2016. The Chancellor has also indicated public sector funding will continue to be reduced up until 2019/2020 to bring about a small budget surplus if they are successful at the next general election.

3.2 Inflation

The Consumer Price Index (CPI) moved below the Government's target level of 2% in January 2014 for the first time since December 2009. Whilst this reduction is welcomed, the impact of price increases on local government costs is not funded by central Government and must be contained within the Council budget planning.

CPI inflation reduced from 1.9% in June to 1.6% in July and the Bank of England predict that inflation will remain below 2% for the next 3 years.

3.3 Base Rate

The Bank Base Rate has remained at an all-time low of 0.5% since March 2009. The Bank of England announced forward guidance on their future plans in their August 2013 Quarterly Inflation report, stating that any increase in the current Base Rate would only be considered once the jobless rate has fallen to 7% or below. The forward guidance is subject to various provisos surrounding inflation and Mark Carney, the Governor of the Bank of England has emphasised that any base rate decisions will be driven by data.

Most forecasters think that increased growth and employment creation will lead to Base Rates increasing before 2016. Many expect that the first increase in base rates will be Q1 2015 with rates increasing gradually for the following 2 years and reaching 2.0% in Q1 2017. This position will continue to be monitored and reviewed and the impact taken into account in budget planning.

4 Government Funding

4.1 Revenue Spending Power 2015/2016

4.1.1 In January 2014 the Government provided indicative settlement figures for 2015/2016 alongside the final funding settlement for 2014/2015.

4.1.2 On the 22 July 2014 the Department for Communities and Local Government (DCLG) published a technical consultation paper on the Local Government Finance Settlement for 2015/2016 (response deadline 25th September 2014).

4.1.3 The consultation documents include indicative exemplifications of the impact of the technical changes for each authority. The changes are, however, primarily presentational and the overall impact at this stage sees no change to the net Revenue Spending Power position of the Council, as included in the indicative settlement for 2015/2016, and which was previously reported to Cabinet in January 2014.

4.1.4 The Council’s response to the consultation documents, submitted in accordance with Government deadlines, is set out at Appendix 1 for information.

4.1.5 While the technical changes result in no change to the reduction in Revenue Spending Power for the council previously reported to Cabinet in January 2014, work is on-going in respect of additional resources included by the Government in the Revenue Spending Power calculation in respect of the Better Care Fund pooled budget arrangements and Social Care Act New Burdens (further detail at section 4.3.2). The outcome of these could impact on the council funding position.

4.1.6 In responding to the Government's technical consultation questions, the Council has taken the opportunity to re-iterate the essential need for the Government to seek to ensure a fairer settlement for the council in 2015/2016 and future years.

- It is now widely acknowledged that the more deprived areas of the country, who are most reliant on government support, have seen the biggest and most disproportionate cuts to their funding. This has had the consequence of significant impact variations to protected groups across the country but particularly in the most deprived areas of the country such as Sunderland.
- It is disappointing that the Government Equality Impact Assessment referred to in the consultation does not address the key issue of lack of fairness in the way funding reductions have been allocated to individual local authorities. The government's overview of the equality impact assessment states that: *"The changes in funding could, without mitigating action and depending on spending decisions made by authorities, have an adverse impact on protected groups. It is not possible at this stage to make an assessment of whether any such impacts will be "substantial" – the policy decisions are high-level ones about distribution between authorities and the equalities impacts will depend on the decisions made by authorities*."

  This stated position fails to acknowledge the inherent unfairness in the distribution of the reductions allocated by Government or that subsequent council actions are driven based on the level of funding reductions received from Government.

4.2 2016/2017 and Beyond

4.2.1 The Government have yet to provide any detailed funding allocations for 2016/2017 and beyond. It would be usual for the government to include an indicative funding position for each authority for 2016/2017 when the next Local Government Finance settlement for 2015/2016 is released in December.

4.2.2 At this stage it is uncertain if that will be the case this year as the government may not want to provide this detail ahead of the general election or before a spending review that would likely follow the general election. While none of the political parties have yet set out specific medium term spending plans should they win the May 2015 election, there is unlikely to be a relaxation of the overall spending position:

- The Conservatives have indicated that they will continue with austerity measures into the medium term, in particular through reducing the welfare budget up to 2017/2018,
- The Labour party have said they will balance the books and deliver a surplus on the current budget and reduce national debt over the next Parliament. They have also indicated that they would retain the public sector spending plans for 2015/2016 of the current government.

The incoming government would, regardless of party, be expected to quickly carry out a review of its available resources and to assess its spending plan options and decisions in light of its key policies. However the long term prognosis is for public sector cuts to continue on a similar trajectory to 2015/2016.

4.3 Other Funding Streams Issues

4.3.1 Integrated Health and Social Care Pooled Budget

The Better Care Fund (BCF) was announced at the 2013 Spending Round. It mandates that CCGs and local authorities (LAs) will pool £3.8bn in 2015/2016, with the aim of improving care for frail and elderly people. Within this £1.9bn is an additional contribution from the NHS which would otherwise have been used for routine health spending.

The indicative settlement figures for Sunderland for 2015/2016 referred to at section 4.1 above include £22.4m of pooled NHS and LA Better Care funding. Plans are currently being developed with the CCG which will enable savings to be delivered in line with council wide savings requirements.

The Fund is intended to support schemes which promote better integration between social care and health services with the aim of improving patients' health and experience of the service while also delivering financial savings by reducing non-elective admissions to hospital and permanent admissions to residential care.

4.3.2 Implementation of the Care Act

The Care Act received Royal Assent on 14th May 2014 and will be implemented in 2 phases. Phase 1 will be implemented April 2015 and Phase 2 April 2016.

The Act includes provision for:

- a minimum eligibility threshold across the country – a set of criteria that makes it clear when local authorities will have to provide support to people.
- local authority duty to consider the physical, mental and emotional wellbeing of the individual needing care. They will also have a new duty to provide preventative services to maintain people's health.
- the care system to be built around each person – through Personal Budgets.
- a cap on personal 'care costs' (not including accommodation costs) of £72,000.
- carers to be entitled to an assessment in their own right.

Each of the above brings with it additional costs for Local Authorities. The indicative settlement for 2015/2016 referred at section 4.1 above included for £1.8m of new burdens money to cover these costs. However:

- the LGA have recently issued guidance showing 2 exemplifications of current considerations as to how the national funding could be allocated. Based on the two exemplifications the indicative funding allocation for Sunderland could be reduced by between £0.466m and £0.566m.

- on-going modelling of the financial impact of the Act and work carried out to date indicate that the indicative funding being suggested by Government of £1.8m may be sufficient to meet the likely additional costs, however any reduction as set out above would result in shortfall.

The impact will be kept under review and incorporated into the budget planning once the position becomes clearer following the current consultation.

4.3.3 Public Health Funding

The final tranche of the Public Health transfer is the commissioning responsibilities for 0-5 year olds from NHS England to LAs on 1st October 2015. The baseline expenditure on 0-5 services will provide the basis for each local authority's individual allocations for 2015/2016. It is anticipated this funding will be announced alongside the local government finance settlement in December 2014. Funding will sit within the overall 'ring-fenced' public health budget.

Over time it is expected that funding allocations will move towards a needs-based funding formula, in the same way as anticipated for the wider public health grant. Consultation on the basis of a future funding formula undertaken in 2012 enabled indicative allocations to be calculated from proposed formula recommendations made by the Advisory Committee on Resource Allocation. The analysis indicated a potential substantial reduction in funding for Sunderland of £5.9m per annum if the formula was introduced. Sunderland have formally opposed the proposed funding allocation which is viewed as unfair and in particular does not take into account existing prioritised spend on Public Health within the city or reflect need appropriately. Latest indications are that a new formula will not be introduced until after 2015/2016.

On 10th September the Department of Health announced funding for 2015/2016 would be frozen at 2014/2015 levels.

4.3.4 Schools Funding

New funding arrangements were introduced from April 2013 for all schools and academies. This was the first stage of introducing a national funding formula in the next spending review period. The Government is seeking to develop a clear and transparent funding formula that supports the needs of pupils and enables Schools and Academies to be funded on a broadly comparable basis.

From April 2015 the DSG, Schools Block funding level, will increase by an additional £390m. The basis for distributing this funding is through calculation of a Minimum Funding Level (MFL) for each local authority area based on national averages. Indicative allocations show that Sunderland will not benefit from the additional funding as current funding levels exceed national averages. The government intends to introduce a national funding formula when their spending plans have been set for a longer period.

Long term the government is committed to reforming High Needs and Early Years Block funding as soon as possible and will begin research this autumn on the High Needs Block which is be concluded by spring 2015 followed by consultation.

4.3.5 Independent Living Fund

The Independent Living Fund is a non-departmental public body funded by the Department of Work and Pensions. It currently makes direct cash payments to around 18,000 disabled people enabling them to purchase support and care services. In March 2014 the Government announced that the Fund will close on 30 June 2015, to ensure all social care support is delivered through the mainstream system, rather than two separate systems. The funding and responsibility for meeting the on-going care and support needs of these individuals will be transferred to Local Authorities from 1 July 2015.

In the quarter ending March 2014 there were 63 Sunderland residents in receipt of ILF funding totalling £1.03m per annum. The un-ringfenced funding transfer is to be based on the actual expenditure incurred per claimant, meaning in theory no budget shortfall should arise. However individual reviews of claimants needs will be undertaken against the council's eligibility criteria and this will ultimately inform the costs incurred and whether funding is sufficient.

4.3.6 Education Services Grant (ESG)

The ESG is allocated on a simple per-pupil basis to local authorities and academies according to the number of pupils for whom they are responsible. In January 2013 the Chancellor announced a £200m reduction in ESG in 2015/2016. The ESG funding rate will be £87 per pupil representing a reduction of 23%. The amount of funding to be received by the Council reduces with each school that transfers to an academy. Provision has been included within the Budget Planning Framework for the impact of a reduction in funding and academy transfers.

4.3.7 Local Welfare Provision Grant

Grant of £1.2m has been received as a separate funding allocation in 2013/2014 and 2014/2015 following the transfer of responsibilities from the DWP. However the funding allocations are not identifiable within the 2015/2016 indicative allocations as Government have indicated they have rolled this in to the Settlement Funding Assessment. It is therefore concluded that the reductions in revenue spending power previously reported and referred to at 4.1 include for a reduction in local welfare provision grant.

5 Other considerations which could impact on longer term planning

5.1 LGA / CIPFA Independent Commission on Local Government Finance

The Commission, established in June 2014, is exploring how reforms to the local government finance system could help address some of the current challenges for local authorities in promoting economic growth, reforming the welfare system and integrating health and social care. The commission intends to produce advice for both the government and the opposition on how best to ensure that the funding system for local government can move towards a settlement that is fair, locally accountable and sustainable in the long-term. The commission is currently gathering evidence on the issues and potential solutions, to which Sunderland council is contributing in association with ANEC. It is hoped that the outcome of the Commissions work will influence government policy with a view towards a fairer and more equitable funding system.

5.2 Localism / Devolution

The Government announced a localism drive in the Autumn Statement which the Chancellor of the Exchequer, said would include ‘new money, new infrastructure, new transport and new science, and real new civic power too’. It is not yet known how the localism drive will operate and whether funding will be redirected from local authorities towards local enterprise partnerships and other regeneration agencies.

In addition the debate surrounding Scotland’s independence referendum has been accompanied by increasing debate over

- the impact of the outcome of the referendum on the fiscal position of England and how that might impact on funding available to English councils
- devolution of powers within England, including control over tax raising powers such as business rates, stamp duty, council tax and other taxes in order to help boost growth in the cities. The debate includes the level of government to which powers should be devolved e.g. city, regional (combined authorities) etc. It is not possible at this stage to assess the impact, of what would be a major shift in the government's fiscal policy / controls, if approved or how it would affect the resources of individual authorities, or the regions until more details emerge. This may not be until after the next general election.

6 Summary Outlook

6.1 At this stage, the outlook for local government funding remains very bleak with continued unprecedented reductions and change up until 2019/2020 at least regardless of political party in power.

6.1.1 Final funding allocations for 2015/2016 will not be made available until the government releases its detailed information as part of the local government finance settlement for 2015/2016 in December. At this stage therefore it is proposed to progress with 2015/2016 planning based on the indicative reductions in funding of £25m previously reported to Cabinet in January 2014.

6.1.2 It has been recent practise for government to provide indicative allocations for the one further year ahead e.g. 2016/2017 at the same time as the final settlement for 2015/2016. However given the government elections in May 2015 it is unlikely that this will be the case this year. However as the long term prognosis is for cuts to continue on a similar trajectory to 2015/2016, at this stage it seems prudent to assume a similar level of reduction to be experienced in 2015/2016 for 2016/2017.

7 Local Income Position

7.1 Council Tax

7.1.1 The Localism Act provides for the provision of referendums to veto excessive council tax increases. This effectively places a limit on council tax increases and if councils exceed the government limits then the public will be able to vote to agree or veto any considered ‘excessive’ increase.

For 2014/15 a referendum requirement applied for proposed increases in Council Tax above 2%.

7.1.2 Government have confirmed Council Tax Freeze Grant funding at a rate of 1% to compensate those Authorities who decide not to increase their Council Tax in 2015/2016 and they have built this into the indicative allocations and base funding position. There is no government guidance beyond this financial year.

Consideration as to the affordability of this approach will be taken once firmer information on funding levels for 2015/2016 is available.

7.1.3 The Local Council Tax Support Scheme was introduced from April 2013 and is currently in its second year of operation. A review of the scheme is currently being undertaken to inform whether any changes should be introduced for the 2015/2016 financial year. Proposals arising from the review will be subject to consultation and the financial impacts included in the budget planning as necessary.

7.1.4 Growth in the council tax base as a result of new homes built will be kept under review and additional income reflected in the budget planning as appropriate.

7.2 Business Rates

7.2.1 Under the Retained Business Rates funding arrangement for local Government implemented from April 2013, the Council retains locally 49% of increased income arising from growth in Local Business Rates base (equally it shares the risk of any under achievement of income targets).

7.2.2 Inherent within the scheme is growth arising from annual inflationary increases to Business Rates. However, there is continuing uncertainty specifically around appeals and avoidance tactics which can significantly impact on the level of income achieved.

7.2.3 The most significant opportunity for Business Rates growth arises through new developments. Sunderland has benefited from such growth, mainly through the provision of two new supermarkets during 2013/2014. The position will be kept under review and additional income reflected in the Budget Planning Framework as appropriate.

7.3 Reserves and Balances

The Local Government Finance Act 1992 requires local authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.

In accordance with the approach adopted to date all earmarked reserves will be revisited as part of the budget process to ensure they still accord with the Council's priorities and overall funding position.

8 Spending Pressures and Commitments

It is proposed to take into account the following spending commitments in the Budget Planning Framework for 2015/2016, noting that at this stage in a number of cases specific cost detail require finalisation and will be subject to review and refinement throughout the budget setting process:

8.1 Replacement of One-off Resources and Budget Pressures in 2015/2016

In meeting the funding gap for 2014/2015 the Council utilised £0.5m of one off resources. This therefore represents an on- going pressure into 2015/2016.

8.2 Pay and Pensions

8.2.1 Pay

The Government has indicated a limit on public sector pay of a 1.0% pay increase. For planning purposes a prudent provision has been built into the MTFS from 2015/2016.

8.2.2 Pensions

The Triennial Actuarial review of the Local Government Pension Scheme was undertaken in 2013 covering 2014/2015 to 2016/2017. The outcome of the review has been reflected in the planning for 2015/2016 and 2016/2017.

The Pensions Act 2008 introduced the requirement to automatically enrol certain workers into a pension scheme. The Council opted to defer auto-enrolment for current workers until 2017. A cost pressure of £2.6m will be factored into the medium term planning.

8.2.3 National Insurance

The Pensions Act 2014, provided for reform of the state pension system, introducing a single tier pension. As part of the reforms, the contracting out for occupational pension schemes from April 2016 will be abolished. For employers, the abolition of contracting out will result in an increased cost of 3.4% on national insurance contributions. The Act provides no method to alleviate the additional financial burden. The impact for 2016/2017 is reflected within the planning.

8.2.4 Workforce Transformation

Financial implications associated with workforce transformation will be kept under review and accommodated from transitional resources set aside for this purpose.

8.3 Energy Prices

Energy and vehicle fuel prices continue to be volatile. It is therefore proposed that prudent provision be included for continued annual increases in charges for gas, electricity and vehicle fuel for the medium term.

8.4 Adult Services Demand Issues

The increasing longevity of the national and specifically, the city's, population continues to place pressure on Adult Social Services budgets. In addition, client expectations and increasing demand to support clients with complex cases to enable clients to maintain independent living, is requiring reconfigured services and additional investment. The position will be kept under review and prudent provision included as appropriate.

8.5 Children’s Services Demand Pressures

There continues to be increasing demand pressures in relation to safeguarding and specifically external placements and prudent provision will be made as appropriate to the strategy.

8.6 Economic Recovery

Significant resources have previously been earmarked to support service pressures and actions in response to the economic position as part of the previous years’ budgets. Given the continuing uncertainties, this will need to be kept under review and appropriate provision made throughout the budget process.

8.7 Welfare Reform

The Council continues to monitor and plan for the significant number of Welfare Reform changes and the potential adverse impacts anticipated across the city. The Council is working with a range of agencies to mitigate the impact and support those affected by the Welfare Reform changes. This will need to be kept under review and appropriate provision made throughout the budget process.

8.8 Capital Financing

Prudential borrowing has been provided for within the medium term financial position in relation to known investments over that period, together with a provision to provide future flexibility at this stage to enable strategic priorities of the Council to proceed, in the future.

9 Spending Priorities

9.1 Priorities from Consultation

9.1.1 The Budget Consultation for 2014/2015 was undertaken within the context of the need to significantly reduce spending for a third year in light of the Government funding reductions. The findings demonstrated general support amongst respondents for the direction of travel of services and for the councils overall approach to making savings.

9.1.2 The proposals for the 2015/2016 Budget Consultation process are set out elsewhere on today's Cabinet agenda. The approach adopted will continue to explore views of residents about the direction of travel for services in response to the changing financial landscape.

10 Summary Resource, Pressures and Commitments Position

10.1 The total reduction in resources and spending pressures represents the estimated gross funding gap. However at this stage there is significant uncertainty in relation to:

- The general economic recovery and public sector finances (direct connectivity between the economy and public finances)
- Settlement confirmation for 2015/2016, probably not available until early December
- The level of government funding reductions in 2016/2017 and beyond, and how this could be further impacted upon by the outcome of the elections, LGA Commission and government policy reviews such as localism and devolution.
- The outcome of the development revised funding approaches e.g. Better Care Integrated Funding, the Care Act implications,
- Significant other changes within the system (Welfare Reform, Schools etc.)

10.2 The level of funding reduction as currently presented represents an unprecedented challenge given the already compound impact of significant reductions and increased cost pressures since 2010. The prospect of significant reductions being required year on year continues over the medium term with further reduction in Council resources and capacity over the 2015-2018 period.

10.3 As outlined the savings requirement for 2015/2016 and particularly beyond remains uncertain. However high level estimated reductions over the next three years are set out below:

MTFS 2015/2016 to 2017/2018	**2015/16 £m**	**2016/17 £m**	**2017/18 £m**	**Total £m**
Updated Three Year Planning	36.3	38.2	33.4	107.9

10.4 As part of the 2014/2015 budget process initial high level plans were approved for 2015/2016 and 2016/2017 to part address the initial funding gap for those years. After taking these plans into account the remaining funding gap is as set out below.

MTFS 2015/2016 to 2017/2018	**2015/16 £m**	**2016/17 £m**	**2017/18 £m**	**Total £m**
Estimated Funding Gap	36.3	38.2	33.4	107.9
Previously approved high level plans	(19.3)	(0.5)		(19.8)
Remaining Estimated Funding Gap	**17.0**	**37.7**	**33.4**	**88.1**

11 Budget Planning Framework

11.1 Community Leadership Programme

11.1.1 The improvement programme framework focuses on all services understanding and fulfilling their Community Leadership role which seeks to understand and meet most important community needs. The approach seeks to enable the Council to evolve into one which is focussed on facilitating those services which make a real difference to the lives of residents and which focusses available resources on the Council's strategic priorities - the Economy, Health, and Education and Skills. The key components of the approach include:

- Development of improved service and customer insight and intelligence - with the aim of ensuring a clear understanding of the contribution each service makes to the strategic priorities and the difference made to the lives of residents. This will provide the Council with the information necessary to understand and prioritise what it needs to do and ensure it is doing the right things to achieve the required outcomes.
- Community Development including:
  - recognising the council role in enabling partners, business and residents to come together and put in place foundations for a successful city whether this be for future service delivery models (e.g. Health and Social Care) or for regeneration activity;
  - working within communities and the voluntary sector to help build resilient and sustainable communities that can also support the delivery of services in the future by harnessing untapped assets to strengthen them and make them more independent.
- Demand Management - Developing the strategies and policies that enable the Council to manage demand and facilitate those services which make a difference in the most effective way within communities;

- Cost of Supply and Customer Services Network (CSN) development - Continued focus on the CSN as the gateway and connector of demand and supply for services with the aim of targeting resources to areas of greatest need, encouraging and supporting self-help, alongside continued delivery of efficiencies within Council services;
- Development of alternative models for service delivery – continuing to look at the most effective and efficient models of provision for services that make a difference over the short to medium term to ensure the residents of Sunderland are offered the best possible public services within the resources available;
- Strategic Services and Fixed Assets – further and continual review to meet the future needs of the Council and its communities and maximise use of Council assets;
- Integrated Commissioning – to enable a cross cutting approach to future commissioning of services to ensure the council commission services in the most effective way that meets changing needs whilst reducing the overall cost of the function

11.1.2 The framework aims to :

- Ensure services are responsive to local needs;
- Protect core services particularly those most vulnerable;
- Target resources rather than provide universal services.

11.2 Addressing the Savings Requirement

It is proposed the budget planning framework as set out below is adopted:

- General Issues

  - Budget planning to be based on high level position outlined at paragraph 10 and updated in light of the Local Government Settlement in December;
  - Provision for spending commitments be included at this stage on the basis set out at paragraph 8 and kept under review;
  - Spending priorities be considered in line with the finding of the budget consultation and emerging service improvement plans as set out in paragraph 9;
  - Budgets be prepared on the basis that all spending pressures not specifically identified above as commitments be accommodated within Directorate cash limits;
  - All commitments against Delegated surpluses / reserves to be reviewed;
  - The position regarding Council Tax to be considered as part of the budget process
  - Commitments against general balances as set out in Appendix 2 be noted and updated throughout the budget process.

- Current Budget Savings Programme:

  In accordance with the budget planning framework agreed for 2014/2015

  - Original permanent planned savings for 2014/2015 will be achieved or an alternative must be delivered on an on-going basis in 2015/2016;
  - Savings originally identified for 2015/2016 will be achieved. Alternative savings will need to be identified by Directorates where a proposal has become unviable;

- Additional Savings Proposals

  Reflecting the Improvement Framework key principles as outlined at 11.1:

  - A programme of activity be developed to address the gap;
  - Continue to press forward with consideration of plans for new models of service delivery and improving services while reducing cost;
  - Directorates be requested to bring forward additional savings plans to enable a programme of additional key service reviews to be proposed and agreed;
  - Continued focus on progressing Regeneration, Funding Leverage & Commercial Opportunities.

- In parallel with the above an in depth review to inform a budget plan which supports the strategic vision of the Council for a successful City is to be undertaken. The aim of the proposed approach is to review all Council services to inform budget planning proposals over the medium term and enable Members to prioritise savings proposals as funding becomes clearer for each financial year by:
  - Giving full transparency in respect of all services provided and their associated costs;
  - Enabling a full understanding of the statutory / legal context underpinning service provision;
  - Providing clarity in deciding what services should be enabled / facilitated / delivered in the future and if so in what form;
  - Informing the size, shape and scope of future core services of the council.

The framework will be robustly managed to ensure financial resilience is maintained.

12 Reasons for Decision

12.1 The Budget Planning Framework forms an essential part of the process of the preparation and compilation of the Revenue Budget for 2015/2016.

13 Alternative Options

13.1 There are no alternative options recommended.

14 Impact Analysis

14.1 Impact assessments of Directorate actions to ensure the achievement of savings targets and a balanced budget position will be undertaken within Directorates as each action is developed.

Appendix 1

Response to the Local Government Finance Settlement 2015/2016 Technical Consultation

Sunderland City Council welcomes the opportunity to respond to the specific technical questions set out in the Government's Technical Consultation document released in July on the Local Government Finance Settlement 2015/2016.

In addition we would take this opportunity to re-iterate a number of key issues that we would ask ministers to consider regarding the current Business Rates Retention funding system, which the council views as unfair and which is putting essential services in Sunderland at risk.

Fairness and Equity

Government have asserted that councils such as Sunderland who receive more money than councils elsewhere have to take their fair share of cuts. However, this ignores why more grant was allocated to deprived areas at the outset i.e. to meet extra need and to recognise that deprived areas generally have relatively low council tax bases from which they can raise council tax income. Reducing grant funding for these areas has a more significant impact on services delivered because these Councils continue to have the same level of high needs but are limited in being able to increase their tax base to raise additional income.

The ability for Sunderland City Council to continue to provide the same level of service as other areas of the country is effectively being eroded and this will only worsen with successive funding cuts making it harder to meet even statutory responsibilities in respect of children and adult social care.

Allocating reductions in proportion to Revenue Support Grant results in those authorities who historically received most grant because of need, bearing the largest reductions. This is a major concern for this council and is one of the main reasons the reduction in Sunderland's Spending Power has been consistently higher than the national average over the last three years.

Revenue 'Spending Power'

In the Settlement announcement the government gave prominence to the "change in revenue spending power" as a measure of an Authority's resources. The Spending Power national average reductions stated by government are 2.9% for 2014/2015 and 1.8% for 2015/2016, however Sunderland Council does not feel this gives a true reflection of the sustained level of reductions faced.

- Sunderland's reductions in spending power of 4.7% in 2014/2015 and 3.9% in 2015/2016 are much higher than the national average,
- Sunderland will see its funding reduced by £72.1m (-22%) over the period 2011/2012 to 2015/2016 equating to an average cut of £576 per dwelling, significantly higher than the national average cuts of 14% and £300 per dwelling.
- A more stark comparison is evidenced if Sunderland is compared to Wokingham. Wokingham will see a £1.3m (+1%) increase in its funding between 2011/2012 and 2015/2016, equivalent to a £7 increase per dwelling.

This last example helps to demonstrate the disparity and unfairness of the funding cuts and the disproportionate distributional implications of the Business Rate Retention system given the differing socio economic position each council faces. Councils from the poorest and most deprived areas of the country face large spending power reductions whereas councils in the wealthiest areas will see increases in their spending power over the next two years.

Within Revenue Spending Power, Sunderland's Settlement Funding Assessment (SFA) has been cut by 9.7% in 2014/2015 and by a further 14% in 2015/2016. The position becomes much worse when grants rolled into this measure and growth in business rates and council tax are excluded to show that the real reduction in the Council's Revenue Support Grant is showing a significant reduction of 17.4% in 2014/2015 and a 27.7% reduction in 2015/2016.

This illustrates that the former formula grant element that recognised low income resources and high needs is being significantly cut, and is disproportionately affecting the deprived areas of the country which are more reliant on this element of grant funding.

In calculating the Revenue Spending Power, the government includes Council Tax Freeze Grant, estimated New Homes Bonus, Council Tax base growth, Public Health Funding growth and particularly for 2015/2016, the new pooled NHS & Local Authority Better Care Fund. These funding elements essentially mask the real level of reduction being felt by Councils in their needs based funding. If Health monies are excluded from the calculation of spending power, the cut for Sunderland is much higher at 5.4% in 2014/2015 and 9.0% in 2015/2016. The Council requests that this funding should be made more transparent and where it is to meet additional demand that this is excluded from the Revenue Spending Power Calculation to enable a more open and more accurate disclosure of the level of cuts faced by the Council.

Council Tax Resource Equalisation

The Council requests that Government reinstates Council Tax Resource Equalisation to its 2013/2014 level.

- It will be recalled that this was introduced in 1993/1994 to recognise the differing abilities of Councils to raise income from their council tax bases. Councils with very high tax bases (e.g. Windsor & Maidenhead) received a large negative grant adjustment, and Council's with lower tax bases (such as Sunderland) received proportionally lower negative grant adjustments. In Sunderland the lowest (Band A) properties account for almost 63% of the Council Tax base. The comparative figure in Windsor and Maidenhead is 3%. This means that Windsor and Maidenhead can raise more money from the same percentage rise in Council Tax than Sunderland.
- From 2011/2012 this adjustment was cut significantly, benefiting wealthier high tax base authorities to the detriment of poorer, lower tax base authorities such as Sunderland. Recognising this was incorrect the Secretary of State restored the value of the Resource Equalisation adjustment to the 2010/2011 level in 2013/2014. It is therefore extremely disappointing that this adjustment has now been embedded within the Upper and Lower tier elements of the Settlement Funding Assessment, where it is no longer separately visible. As the Upper and Lower Tier elements receive no protection this means the Resource Equalisation component is being cut by around 11% in 2014/2015 and up to 25% over the next two years and will subsequently be eroded year on year. This issue is the single biggest cause of the disproportionate cuts in funding and spending power between poor and wealthy areas of the country.

Protection of some components of the funding system e.g. Council Tax Freeze Grant is at odds with the scale of cuts to the general grant funding within the SFA which are historically based on needs and available resources. (For Sunderland this element of funding is being cut by 11.2% in 2014/2015 and 13.9% in 2015/2016). The Council considers it should be those resources allocated based on need and available resources which should be protected. The continued reductions to general funding will inevitably affect those authorities most reliant on that funding. This will inevitably impact on services delivered to those most in need such as Adult and Children's social care.

- The Council asks Government to ensure the assumed unintended negative impact on the needs based element of the funding are fully considered especially in their revised equalities impact assessment
- The Council request that consistent cuts across all funding elements are applied to make the settlement fairer.

Holdbacks and Topslices

The council is opposed to the general principle of government holding back funds or top slicing of funds (e.g. Safety Net, New Homes Bonus, Capitalisation) as this takes away revenue funding from all authorities, but are being targeted for a specific use by only a limited number of authorities, or cannot be accessed in a fair and equitable way. The council would request that the government removes this feature from all future Settlements as they are seen as unnecessary and derisive.

Business Rates Appeals

The uncertainty caused by the impact of business rates appeals that can be back dated prior to 31st March 2013 (as far 2010) is a major concern to the Council. The council must meet half the cost of any successful appeals, even though the government received the full benefit of business rates collected during the period 2010 to 2013. In addition the level of safety net has been set by government at too low a level to be of assistance to most Councils based on the experience of 2013/2014. It is requested that the government reconsiders this position and fully funds all appeals relating to those pre dating 31st March 2013.

Grant Formulae Data Review

The Council continues to challenge a funding system that takes no account of changing needs due to local economic circumstances. The decision not to update data used in grant formulae until 2020/2021 means local authorities must meet the costs of increasing demand for services without the appropriate level of resources that adequately reflect local needs and circumstances. This perpetuates the unfair impact of previous funding settlements evidenced since 2011/2012 whereby higher need areas such as Sunderland lose a greater proportion of funds than those from the more affluent authorities.

The council request government identifies a mechanism to reflect significant changes in need in the funding system similar to that which it developed for sparsity in the last local government finance settlement.

I trust that the Council's response to the specific technical questions as set out below will be given full consideration by ministers in due course.

Response to the Technical Questions

Question 1:

Do you agree that compensation for the cap should be paid on the basis of the reduction to retained business rates income adjusted to account for lower tariffs and top-ups, as in 2014-15?

Council Response:

No - local authorities should not lose out financially from this adjustment, which should be inflated by the relevant RPI index applied to business rates each year so that the amount retains its real terms value in future years, starting from 2015/16.

Question 2:

Do you agree that the 2014-15 Council Tax Freeze Grant should be rolled into Revenue Support Grant, and combined with the 2013-14 Council Tax Freeze funding element as a single element?

Council Response:

No – we would prefer the elements to be kept separate for transparency but acknowledge that it is more important that this funding element is clearly protected in future years.

Question 3:

Do you agree that, subject to satisfactory progress by individual authorities, the 2014-15 Efficiency Support Grant should be rolled in as a separate element for the qualifying authorities?

Council Response:

The Council is not affected by this grant but would agree that it would be more transparent if this was rolled in as a separate element in the current funding mechanism.

Question 4:

Do you agree that the 2014-15 Rural Services Delivery Grant should be rolled in and combined with the rural funding element?

Council Response:

Again the Council is not affected by this additional grant and actually opposed this grant award from being introduced in the previous grant consultation process on the grounds that Resource Equalisation was a much bigger and more fundamental issue that needed to be addressed to ensure the current funding system remained fair.

Question 5:

Do you agree with the proposed methodology for reducing funding to authorities which have fallen below the threshold for participation in the Carbon Reduction Commitment Energy Efficiency Scheme, to take account of the loss in tax revenue to the Exchequer?

Council Response:

The Council is not affected by this issue but agrees with the rationale put forward.

Question 6:

Do you have any comments on the impact of the 2015-16 settlement on protected groups, and on the draft Equality Statement?

Council Response:

The Council has serious concerns over the draft Equality Statement which is seen as misrepresenting the actual position by linking council spending decisions as one of the main causes affecting the impact on special groups across the country but without acknowledging the significant and varied cuts to funding that they have endured. Importantly the government also fails to mention what mitigating actions they are taking to address the impact on special groups.
Local Authorities are adapting their service plans to accommodate the significant and continued government funding cuts but would argue that the past and current funding proposals have already had a huge impact and varied impact upon special groups across the country.

As set out earlier in the response, Sunderland has consistently seen significantly higher cuts to its Revenue Spending Power, since 2011/12, as compared to the national average position for all English authorities. Sunderland is one of the most deprived areas of the country and yet this council (and its residents) have endured some of the largest and most disproportionate cuts to funding whilst the Council has taken actions to help protect front line services wherever possible. The continued scale of the cuts, up until at least 2017/18, means that our policy of protecting the most vulnerable people, with the greatest needs, will not be possible to maintain.

The Council would therefore take exception to the government's Equality Statement and overall conclusions.

We would also take this opportunity to confirm previous Council responses to government funding consultations by requesting that the government reviews and rebalances the funding cuts it has implemented as a matter of urgency in order to make them fairer and more equitable across the country.

It could do this by taking the following actions:

- Reviewing the current Business Rate Retention (BRR) funding mechanism with a move towards a more needs based approach rather than the incentivisation approach being adopted;
- Protecting Resource Equalisation within the current Business Rates Retention funding mechanism;
- Setting the Safety Net mechanism at realistic levels to help properly protect the most vulnerable councils from fluctuations in business rates income;
- Fully funding past business rates appeals;
- Reducing set asides / top slicing and allocating more funds directly to local government;
- Reviewing the New Homes Bonus Scheme by making it fairer in both how it is funded and how it is distributed;
- Reviewing Council Tax Freeze Grant to reflect a needs based approach to funding rather than the current unfair council tax base methodology which sees more affluent councils gain the most funding;
- Ensuring that all health / social care monies are transparent and allocated on need.

APPENDIX 2

Statement of General Balances

	£m
Balances as at 31st March 2013	**7.570**
Use of Balances 2013/2014	
- Contribution to Revenue Budget	(2.572)
Additions to Balances 2013/2014	
- Transfer from Strategic Investment Reserve to support transitional costs	2.572
Balances 31st March 2014	**7.570**
Use of / Addition to Balances 2014/2015	**0**
Estimated Balances 31st March 2015	**7.570**